

HOUGHTON LAKE SEWER AUTHORITY

HOUGHTON LAKE, MICHIGAN

AUDITED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Houghton Lake Sewer Authority		LOCAL AUDIT & FINANCE DIVISION	
Fiscal Year End December 31, 2005		Opinion Date June 19, 2006		Date Audit Report Submitted to State June 30, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

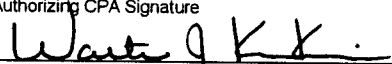
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

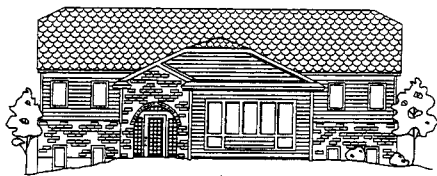
If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Keskine, Cook, Miller & Alexander LLP		Telephone Number 989-732-7515		
Street Address 100 West First Street		City Gaylord	State MI	Zip 49735
Authorizing CPA Signature 		Printed Name Walter J Keskine		License Number 1101008795

CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2-4
<u>GOVERNMENT-WIDE FINANCIAL STATEMENTS</u>	
STATEMENT OF NET ASSETS	5
STATEMENT OF ACTIVITIES	6
<u>FUND FINANCIAL STATEMENTS</u>	
<u>PROPRIETARY FUND</u>	
BALANCE SHEET	7
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	8
STATEMENT OF CASH FLOWS	9
<u>FIDUCIARY FUND</u>	
STATEMENT OF FIDUCIARY NET ASSETS	10
NOTES TO THE FINANCIAL STATEMENTS	11-20



Keskin, Cook, Miller & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskin, C.P.A.
Jeffrey B. Cook, C.P.A.
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Ronald D. Alexander, C.P.A.
Curt A. Reppuhn, C.P.A.

INDEPENDENT AUDITOR'S REPORT

June 19, 2006

Board of Commissioners
Houghton Lake Sewer Authority
Houghton Lake, MI

We have audited the accompanying financial statements of the business-type activities, the major fund, and the remaining fund information of the Houghton Lake Sewer Authority as of and for the year ended December 31, 2005, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the major fund and the remaining fund information of the Houghton Lake Sewer Authority as of December 31, 2005, and the respective changes in financial position and cash flows, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, on pages 2-4, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

R. K. Cook Miller; Alexander

Keskin, Cook, Miller & Alexander, LLP
Certified Public Accountants



Houghton Lake Sewer Authority

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HOUGHTON LAKE SEWER AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2005

This section of the annual financial report of the Houghton Lake Sewer Authority presents our discussion and analysis of the entity's financial performance during the fiscal year ended December 31, 2005. Please read it in conjunction with the financial statements which immediately follow this section.

Financial Highlights

Our financial status remained stable over the last year. The change in net assets was \$43,892.

Assets decreased approximately \$14,000 from the prior year, largely due to the fact that depreciation of capital assets exceeded new purchases in 2005, as described in detail in a subsequent section of this letter.

Overall revenues were \$1,203,169, of which \$1,195,355 were program revenues and \$7,814 were general revenues. Overall expenses (including depreciation) totaled \$1,159,277. The cost of the operations and maintenance program increased approximately 10% from the prior year, primarily due to increased equipment repairs and maintenance costs.

Quarterly contributions from Denton, Lake, and Roscommon Townships comprised the majority of the Authority's revenues collected during the year. Overall revenues increased 9% from the prior year.

Overview of the Financial Statements

This annual report consists of two parts, management discussion and analysis and the basic financial statements. The basic financial statements include two different kinds of statements that present different views of the Authority.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present business type activities according to function.

The remaining statements are fund financial statements, which focus on individual parts of the Authority in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.



Government-Wide Statements

The government-wide statements report information about the entity as a whole using accounting methods used by private companies. The statement of net assets includes all of the entity's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Authority's assets and liabilities and this is one method to measure financial health or position.

Over time increases/decreases in the Authority's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as changes in Township contributions, facility conditions, and personnel changes.

The activity of the Authority – sewer operations and maintenance – is reported as a business-type activity. The Authority has no governmental activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Authority's funds, focusing on significant (major) funds, not the Authority as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. They also may be created by the Authority's board. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The Authority has the following fund:

Operations and Maintenance Fund – All of the entity's activities are included in this fund category. The fund is presented on the accrual basis, as required for proprietary fund types, which is designed to show both short and long-term financial information. You will note that there are no differences in the totals between the government-wide statements and the fund statements. The only differences lie in financial statement presentation.

Financial Analysis of the Entity as a Whole

	2004	2005
Current Assets	\$ 256,756	\$ 292,418
Capital Assets, net of depreciation	623,189	573,764
Total Assets	<u>\$ 879,945</u>	<u>\$ 866,182</u>
Current Liabilities	\$ 77,633	\$ 81,797
Long-Term Liabilities	177,365	115,546
Total Liabilities	<u>\$ 254,998</u>	<u>\$ 197,343</u>
Operating Revenues	\$1,084,722	\$1,195,355
Operating Expenses	\$1,031,479	\$1,151,928

Financial Analysis of the Entity as a Whole (continued)

Net Assets – the entity's combined net assets increased during the year ended December 31, 2005 totaling \$668,839. The primary reason for the increase in net assets was the increase in contributions from the participating Townships.

Financial Analysis of the Authority's Funds

The activities of the operations and maintenance fund have remained constant, consisting of utility expenses, systems and equipment repairs and maintenance, and capital projects.

Capital Asset and Long-term Debt Activity

Capital Assets – The Authority purchased new equipment during the year amounting to approximately \$24,000. The equipment consisted of a generator and a pickup truck.

Long-term Debt – The Authority paid \$65,019 in principal and \$7,349 in interest on long-term debt. Total outstanding debt (including current portions) amount to \$147,379 at December 31, 2005.

Known Factors affecting Future Operations

The Sewage System will soon require major improvements to the Pond System to meet demand and environmental concerns. Estimated cost is \$7-10 million which will require a revenue bond for funding purposes.

Contacting Entity Management

This financial report is designed to provide taxpayers, creditors, investors and customers with a general overview of the entity's finances and to demonstrate the entity's accountability for the revenues it receives. If you have questions concerning this report please contact Mr. Ed Rzycki, Office Manager, at 1250 South Harrison Road, Houghton Lake, MI 48629.

Signature:



Date: June 22, 2006

**HOUGHTON LAKE SEWER AUTHORITY
STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 221,818
Investments	10,000
Accounts Receivable	35,600
Inventory	25,000

Total Current Assets	292,418
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Equipment and Improvements (At Cost)

Equipment	1,081,096
Building Improvements	100,925
Accumulated Depreciation	(608,257)

Total Equipment and Improvements	573,764
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Total Assets	866,182
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LIABILITIES

Current Liabilities

Interest Payable	2,858
Due to Governmental Units	506
Permit Fees Payable	10,600
Current Portion of Notes Payable	67,833

Total Current Liabilities	81,797
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Long Term Liabilities

Notes Payable	79,546
Accrued Sick Pay	36,000

Total Long Term Liabilities	115,546
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Total Liabilities	197,343
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	426,385
Unrestricted Net Assets	242,454

Total Net Assets	\$ 668,839
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See accompanying notes to the financial statements

HOUGHTON LAKE SEWER AUTHORITY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2005

P R O G R A M R E V E N U E S				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS & CONTRIBUTIONS	CAPITAL GRANTS & CONTRIBUTIONS	
BUSINESS-TYPE ACTIVITIES				
Sewer Operations	\$ (1,151,928)	\$ 219,383	\$ -	\$ 43,427
Interest on Long-Term Debt	(7,349)	-	-	(7,349)
Total Business-Type Activities	(1,159,277)	219,383	975,972	36,078
GENERAL REVENUES				
Interest and Other Income				7,814
Total General Revenues				7,814
Change in Net Assets				43,892
Net Assets - January 1				624,947
Net Assets - December 31				\$ 668,839

See accompanying notes to the financial statements.

**HOUGHTON LAKE SEWER AUTHORITY
STATEMENT OF FUND NET ASSETS
DECEMBER 31, 2005**

	SEWER OPERATING
<hr/>	
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 221,818
Investments	10,000
Accounts Receivable	35,600
Inventory	25,000
	<hr/>
Total Current Assets	292,418
	<hr/>
Equipment and Improvements (At Cost)	
Equipment	1,081,096
Building Improvements	100,925
Accumulated Depreciation	(608,257)
	<hr/>
Total Equipment and Improvements	573,764
	<hr/>
Total Assets	866,182
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LIABILITIES AND NET ASSETS	
Current Liabilities	
Interest Payable	2,858
Due to Governmental Units	506
Permit Fees Payable	10,600
Current Portion of Notes Payable	67,833
	<hr/>
Total Current Liabilities	81,797
	<hr/>
Long Term Liabilities	
Notes Payable	79,546
Accrued Sick Pay	36,000
	<hr/>
Total Long Term Liabilities	115,546
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Total Liabilities	197,343
	<hr/>
Net Assets	
Invested in Capital Assets, Net of Related Debt	426,385
Fund Net Assets	242,454
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Total Net Assets	668,839
	<hr/>
Total Liabilities and Net Assets	\$ 866,182
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See accompanying notes to the financial statements

HOUGHTON LAKE SEWER AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEAR ENDED DECEMBER 31, 2005

	SEWER OPERATING
OPERATING REVENUES	
Township Contributions:	
Denton	\$ 501,631
Lake	197,142
Roscommon	237,700
Capital Replacement	39,499
Services	85,037
Building Agency Expense Reimbursements	134,346
Total Operating Revenues	<u>1,195,355</u>
OPERATING EXPENSES	
Salaries	437,797
Employee Benefits	272,783
General Repair and Maintenance	131,943
Utilities	122,541
Depreciation	73,319
Insurance	49,193
Equipment Purchase, Rental and Maintenance	-
Telephone	11,541
Gas and Oil	23,747
Postage and Office Supplies	7,436
Operating Supplies	3,005
Custodial Supplies	1,424
Professional Services	3,700
Education	485
Dues and Subscriptions	1,260
Travel and Mileage	4,994
Clothing Allowance	5,251
Dues and Subscriptions	1,509
Total Operating Expenses	<u>1,151,928</u>
Operating Income	43,427
NON-OPERATING REVENUES/(EXPENSES)	
Interest on Investments	7,814
Interest Expense	(7,349)
Non-Operating Income/(Loss)	<u>465</u>
Net Income	<u>43,892</u>
Fund Net Assets - January 1	624,947
Fund Net Assets - December 31	<u><u>\$ 668,839</u></u>

See accompanying notes to the financial statements

**HOUGHTON LAKE SEWER AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2005**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Townships	\$ 1,142,442
Cash Received from Others	2,245
Cash Received from Permit Activity	12,975
Cash Received from Building Agency	132,004
Cash Payments to Vendors for Goods and Services	(417,908)
Cash Payments for Employees and Benefits	(657,508)
Cash Payments for Permit Activity	(6,725)
Cash Payments for Inspections	(2,375)

Net Cash Provided by Operating Activities	205,150
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of Capital Assets	(23,896)
Principal Paid on Notes	(65,019)
Interest Paid on Notes	(7,349)

Net Cash Used by Capital and Related Financing Activities	(96,264)
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CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	7,814
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Net Increase in Cash and Cash Equivalents	116,700
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Cash and Cash Equivalents - January 1	105,118
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Cash and Cash Equivalents - December 31	\$ 221,818
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**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED
BY OPERATING ACTIVITIES**

Operating Income	\$ 43,427
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	73,319
Decrease in Accounts Receivable	81,038
Increase in Due to Other Governments	297
Increase in Other Liabilities	7,069

Net Cash Provided by Operating Activities	\$ 205,150
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See accompanying notes to the financial statements.

**HOUGHTON LAKE SEWER AUTHORITY
STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2005**

ASSETS

Cash and Cash Equivalents	\$ 9,281
	<u> </u>

LIABILITIES

Contractor's Cash Bonds	\$ 9,281
	<u> </u>

See accompanying notes to the financial statements

HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE A: ENTITY

The authority was created in 1973 by the townships of Denton, Lake and Roscommon of Roscommon County for the purpose of operating, maintaining, administering and managing a sanitary sewage facility for the benefit of the forenamed three townships and for any other township or municipality which hereafter joins in and becomes a part of such sewer system and the related agreement, all for the betterment of the health, safety, economy and general welfare of the participating municipalities.

Ownership of the public sanitary sewer system will remain with the Roscommon County Department of Public Works until all outstanding bonds issued by said department of the County of Roscommon pertaining to the system have been retired. Thereafter, all portions of the system shall become the property of the respective municipalities in which the same are located and are to be operated for the benefit of said participating municipalities both jointly and severally.

The participating townships are required to reimburse the Sewer Authority for all operating expenses either directly or indirectly based upon sewage treatment demands, flow and other service demands of the respective townships as is most appropriate under the circumstances in order to effectuate a fair and equitable distribution of such expense. Also, the townships must provide certain moneys to the Sewer Authority for the replacement, maintenance and the acquisition of additional fixed assets. The separate financial statements of the townships participating in the joint venture are located at:

Roscommon Township
8555 Knapp Road
PO Box 610
Houghton Lake, MI 48629

Denton Township
2565 South Gladwin Road
PO Box 289
Prudenville, MI 48651

Lake Township
PO Box 427
Houghton Lake, MI 48629

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of the Houghton Lake Sewer Authority are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures, of the Authority's financial activities for the fiscal year ended December 31, 2005.

The accounting policies of the Authority conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

On January 1, 2003, the Authority adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and Statement No. 38 "Certain Financial Statement Note Disclosures".

Under the provisions of GASB Statements No. 34 and 38, the focus of the Authority's financial statements has shifted from a fund focus to a government-wide focus.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT
PRESENTATION**

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Authority as a whole, excluding fiduciary activities such as sewer usage fee collections and disbursements and contractor's bond activity. Individual funds are not displayed but the statements distinguish governmental activities from business-type activities, generally financed in whole or in part with fees charged to external customers. Due to the nature of the operations of the Authority, there are no governmental activities. It is a single-purpose government engaging in only business-type activities.

HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT
PRESENTATION (CONTINUED)

Government-Wide Financial Statements (Continued)

The statement of activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. The Authority engages in one functional activity – sewer operations. Program revenues include: (1) charges for services which report fees and other charges to users of the Authority's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Other revenue sources not properly included with program revenues are reported as general revenues. At this time, the Authority has no general revenues.

Fund Financial Statements

Fund financial statements are provided for proprietary (sewer operations) and fiduciary funds.

The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

FUND TYPES AND MAJOR FUNDS

Proprietary Fund

The Authority reports the following major proprietary fund:

Sewer Operations Fund – this fund reports operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND TYPES AND MAJOR FUNDS (CONTINUED)

Other Funds

Fiduciary Fund - This fund is used to account for assets held in trust or as an agent for others. The contractor's bond activities and sewer usage fee collections and disbursements are recorded in this category. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles (GAAP). The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Authority does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Government-Wide Financial Statements

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary Fund Financial Statements

Operating income reported in proprietary fund financial includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to the townships for services provided. Principal operating expenses are the costs of providing sewer operation services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGET

An operating budget is prepared by the Authority annually for use as a management tool and is presented to the three member townships for adoption. The budget is adopted prior to January 1 and is amended if necessary.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

INVENTORY

Inventory consists of various parts and supplies on hand and is recorded at estimated historical cost.

CAPITAL ASSETS AND DEPRECIATION

The Authority's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide and proprietary fund financial statements. The Authority maintains infrastructure asset records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The Authority generally capitalizes assets with historical cost of \$1,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Depreciation of all exhaustible fixed assets purchased by the Authority is charged as an expense against operations. Accumulated depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Improvements	25-50 years
Equipment	5-15 years

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND DISCOUNTS/PREMIUMS

In the government-wide and proprietary fund financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effect of interest method.

NOTE C: CASH AND INVESTMENTS

All cash and investments are maintained in financial institutions in the Houghton Lake, Michigan area and are stated at cost, which approximates fair market value. Investments consist of certificates of deposit with original maturities in excess of 90 days. All cash deposits are maintained in accounts as approved by State Statutes.

The Authority's deposits are categorized to give an indication of the level of risk assumed by the Authority at fiscal year-end. The categories are described as follows:

- Category 1 – Insured or collateralized with securities held by the Authority or by its agent in the Authority's name.
- Category 2 – Collateralized with securities held by the pledging Financial institution's trust department or agent in the Authority's name.
- Category 3 – Uncollateralized.

<u>BANK</u> <u>BALANCE</u>	<u>1</u>	<u>CATEGORY</u> <u>2</u>	<u>3</u>	<u>CARRYING</u> <u>AMOUNT</u>
<u>\$ 274,956</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 174,956</u>	<u>\$ 221,818</u>

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's investments are as follows:

- (1) Insured or securities held by the Authority or the agent in the Authority's name.
- (2) Uninsured with securities held by the counter party's trust department or its agent in the Authority's name.
- (3) Uninsured with securities held by the counter party's trust department or agent but not in the Authority's name.

HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE C: CASH AND INVESTMENTS (CONTINUED)

Balances at December 31, 2005 consist of the following:

	<u>1</u>	CATEGORY		<u>CARRYING</u>
		<u>2</u>	<u>3</u>	<u>AMOUNT</u>
Certificate of Deposit	<u>\$10,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$10,000</u>

Carrying value approximates fair market value of investments at December 31, 2005.

NOTE D: ACCOUNTS RECEIVABLE

The Authority provides sewer services to Markey Township and is paid for these services quarterly. Additionally, the Authority provides certain administrative services to the Houghton Lake Building Agency and is reimbursed on monthly basis. The amounts due the Authority for services rendered as of December 31, 2005 are as follows:

Markey Township	\$ 23,016
HL Building Agency	<u>12,584</u>
Total Accounts Receivable	<u>\$ 35,600</u>

Management considers these amounts to be fully collectible; accordingly, no allowance for doubtful accounts is recorded in these financial statements.

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005**

NOTE E: CAPITAL ASSETS

	<u>CAPITAL ASSETS DEPRECIATED</u>				
	<u>Buildings</u>	<u>Office Equipment</u>	<u>Operating Equipment</u>	<u>Computer Equipment</u>	<u>Totals</u>
Business-Type Activities					
Balance, January 1, 2004	\$ 100,925	\$ 46,557	\$ 954,103	\$ 56,541	\$ 1,158,126
Increases	-	-	23,895	-	23,895
Decreases	-	-	-	-	-
Balance, December 31, 2004	<u>100,925</u>	<u>46,557</u>	<u>977,998</u>	<u>56,541</u>	<u>1,182,021</u>
Accumulated Depreciation					
Balance, January 1, 2004	\$ 50,709	\$ 35,625	\$ 395,078	\$ 53,526	\$ 534,938
Increases	2,029	2,578	67,624	1,088	73,319
Decreases	-	-	-	-	-
Balance, December 31, 2004	<u>52,738</u>	<u>38,203</u>	<u>462,702</u>	<u>54,614</u>	<u>608,257</u>
Business-Type Activities Capital Assets, Net	<u>\$ 48,187</u>	<u>\$ 8,354</u>	<u>\$ 515,296</u>	<u>\$ 1,927</u>	<u>\$ 573,764</u>

Depreciation expense for the year ended December 31, 2005 totaled \$73,319.

NOTE F: DUE TO/FROM OTHER GOVERNMENTAL UNITS

Each year the Authority operates on a budget which the participating townships use as a basis for operating fund advances. At December 31 of each year activity is charged to the townships on the basis of actual charges and allocations based on percentage of equivalent units. The variance is added or subtracted from the next quarterly contribution. The total amount due to the participating Townships was \$506 at December 31, 2005.

NOTE G: NOTES PAYABLE

The following is a summary of changes in long-term debt for the year ended December 31, 2005:

<u>Description and Purpose</u>	<u>Balance 1/1/05</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 12/31/05</u>	<u>Current Portion</u>
Business-Type Activities					
2003 Vacuum Truck Note	\$ 128,196	\$ -	\$ 40,705	\$ 87,491	\$ 42,700
Pond Doctor Note	<u>84,202</u>	<u>-</u>	<u>24,314</u>	<u>59,888</u>	<u>25,133</u>
Total	<u>\$ 212,398</u>	<u>\$ -</u>	<u>\$ 65,019</u>	<u>\$ 147,379</u>	<u>\$ 67,833</u>

VACUUM TRUCK NOTE

In 2003, the Authority acquired a vacuum truck. The cost of the vacuum truck was \$262,000, offset by a \$95,000 trade in value of the 1998 vacuum truck. The net amount financed totaled \$167,000. The loan is due \$46,987 annually, including interest at 4.9%.

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005**

NOTE G: NOTES PAYABLE (CONTINUED)

POND DOCTOR NOTE

In 2003, the Authority purchased pond doctor equipment at a cost of \$123,030, financed through Bank One. Payments are \$2,226 monthly, including interest at 3.26%.

Annual principal payments are due as follows:

		Vacuum Truck	Pond Doctor
Year ended December 31,	2006	\$ 42,700	\$ 25,133
	2007	44,791	25,965
	2008	-	8,790
		<u>\$ 87,491</u>	<u>\$ 59,888</u>

NOTE H: SICK PAY ALLOWANCE

The Authority allows its employees to accumulate unused sick leave to a maximum of thirty days per employee. The estimated liability for all sick leave at December 31, 2005 is approximately \$36,000.

NOTE I: PERMIT FEES

Permit fees are collected and disbursed for the benefit of the townships. The fees are used to first offset inspection costs and any excess amounts collected are disbursed to the townships.

NOTE J: LEASES

The authority has an operating lease for one vehicle. The monthly obligation totals \$318.

Future minimum annual lease payments are as follows:

Year ended 2006	\$ 3,811
2007	1,905

**HOUGHTON LAKE SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005**

NOTE K: PENSION PLAN

The Houghton Lake Sewer Authority contributes to the Houghton Lake Sewer Authority Pension Plan, which is a defined contribution pension plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amounts of benefits the individual is to receive. Under the Authority's defined contribution pension plan, the benefits a participant will receive depends on the amount contributed to the participant's account and the returns earned on investments of those contributions.

Upon the date of hire, all full time and permanent part-time employees are eligible to participate in the plan. Contributions made by both the Authority and employees vest immediately. The participant will receive benefits at age 55 or the tenth anniversary of the date the participant commenced participation of the plan if later. There is no provision for early retirement.

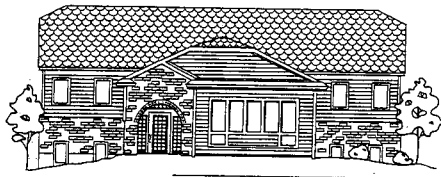
The plan requires the Authority to contribute 10% of the eligible employees wages. Additionally, each participant may make a contribution up to 10% of their salary. During the year the Authority contributed \$41,522 to the plan, which was approximately 10% of its current year covered payroll.

No pension provision changes occurred during the year that affected the required contributions to be made by the Authority or its employees.

NOTE L: INSURANCE

The Authority is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injury to employees; and natural disasters. The authority participates in the Michigan Township Participating Plan, a self-insured group. The plan is considered a public entity risk pool. The authority pays annual premiums to the plan for respective insurance coverage. In the event the plan's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the plan may be subject to special assessments to make up the deficiency. The plan maintains reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance.

The authority has not been informed of any potential assessments being required at this time. There were no significant changes in coverage, nor were there any significant claims. The authority also carries commercial insurance for other types of losses.



Keskin, Cook, Miller & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskin, C.P.A.
Jeffrey B. Cook, C.P.A.
Richard W. Miller, C.P.A.
Ronald D. Alexander, C.P.A.
Curt A. Reppuhn, C.P.A.

June 19, 2006

Houghton Lake Sewer Authority
P.O. Box 8
Houghton Lake, MI 48629

We have audited the financial statements of the Houghton Lake Sewer Authority for the year ended December 31, 2005, and have issued our report thereon dated June 19, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 4, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Houghton Lake Sewer Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Houghton Lake Sewer Authority are described in the notes to the financial statements.

We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The following attached pages summarize the adjustments that were proposed to management and made to the audited financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

The Houghton Lake Sewer Authority's accounting records were reported on the cash basis and we were required to make several adjustments to the accrual basis. Other than these adjustments we encountered only minor difficulties in performing the audit.

Comments and Recommendations


In planning and performing our audit of the financial statements of the Houghton Lake Sewer Authority, we noted the following items:

- Currently the authority maintains its records on the cash basis. Proprietary funds (Sewer) are required by generally accepted accounting principles to report their activity on the full accrual basis. We were required to make several adjustments to your general ledger to properly record accounts receivable, accounts and notes payable, and equipment additions and depreciation. We recommend purchase and implementation of a computerized general ledger system, which would be maintained on the accrual basis. Income would be recorded when billed and expenses when incurred. We understand that the general ledger system will be implemented along with a new utility billing system. We would be happy to assist in this process since opening balances should be entered which agree to your final audited amounts.
- The current utility billing system is old and in need of upgrade. We understand that maintenance of the system can no longer be acquired. We recommend that such a system be purchased and implemented and understand that the process is currently in progress. Due to the large number of transactions in this system it is very important to complete this process quickly. Time savings and report preparation can be greatly enhanced.

We hope you find the above comments and recommendations useful. We are available to assist you in implementing these items should the need arise.

This information is intended solely for the information of the Houghton Lake Sewer Authority's Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

 K. Cook Miller, Alexander LLP
Keskine, Cook, Miller & Alexander LLP